

MOODY'S

RATINGS

Rating Action: Moody's affirms OTP Bank Nyrt's Baa1 long-term deposit ratings, maintains stable outlook

27 Mar 2024

OTP Jelzalogbank Zrt.'s Baa3 backed long-term issuer rating also affirmed with stable outlook

Limassol, March 27, 2024 -- Moody's Ratings (Moody's) has today affirmed OTP Bank Nyrt's (OTP) Baa1/P-2 long- and short-term deposit ratings and its Baa3 senior unsecured debt rating and maintained the stable outlook on the long-term deposit and senior unsecured ratings.

Further, Moody's affirmed OTP's ba1 Baseline Credit Assessment (BCA) and Adjusted BCA, its Ba2 subordinated bond and its Ba3(hyb) junior subordinated bond ratings as well as its Baa1/P-2 long- and short-term Counterparty Risk Ratings (CRR), and its Baa1(cr)/P-2(cr) long- and short-term Counterparty Risk (CR) Assessments.

Concurrently the rating agency affirmed OTP Jelzalogbank Zrt.'s (OTP Mortgage Bank) (OTP MB) - OTP's wholly owned mortgage bank subsidiary - Baa3 backed long-term issuer rating with stable outlook, and its Baa1/P-2 long- and short term CRRs and Baa1(cr)/P-2(cr) long- and short-term CR Assessments.

RATINGS RATIONALE

-OTP BANK NYRT

--AFFIRMATION OF THE BASELINE CREDIT ASSESSMENT

The affirmation of OTP's ba1 BCA acknowledges the increased diversification in its revenues and asset composition as a result of OTP's leading franchise in Hungary as well as in several Central and Eastern European countries. OTP's diversified operations continue to provide significant growth opportunities and support its strong profitability, however the agency expects a decline in the bank's return on assets in 2024 as the growth in operating income will be offset by an increase in risk costs and the growing asset base.

The ratings affirmation also captures the bank's diversified loan book, the resiliency of its asset quality particularly in the weaker countries it operates such as Russia and Ukraine as well as the agency's expectation of mild asset quality deterioration in some of its major markets, including Hungary. OTP has strong capitalization buffers with a Common Equity Tier 1 ratio of 16.6% as of year-end 2023 and anticipates further improvement to its CET 1 ratio following the closing of the sale of its Romanian subsidiary which would offset the small decline from a potential exit from its Russian operations.

OTP maintains strong liquidity position with a liquidity coverage ratio (LCR) of 246% as of year-end 2023 and stable funding, predominantly based on deposits.

--AFFIRMATION OF DEBT AND DEPOSIT RATINGS

The affirmation of OTP's Baa1 long-term deposit ratings, Baa3 senior unsecured debt rating as well as its Ba2 subordinated debt rating and Ba3(hyb) junior subordinated debt rating reflects the affirmation of the bank's ba1 BCA and the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which are three notches of uplift for OTP's deposit ratings and no uplift for the senior unsecured debt. Given the very high severity for the bank's subordinated and junior subordinated debt, these are rated one notch and two notches respectively (also considering the coupon skip mechanism for the latter) below the Adjusted BCA. Moody's LGF analysis incorporates the bank's outstanding debt as well as planned issuances for this year and is based on its current common resolution perimeter, which excludes certain operations most important of which are OTP's Slovenian subsidiaries.

Because of OTP's domestic importance, the agency assumes a moderate likelihood of support in case of need from the Government of Hungary (Baa2 stable) for instruments ranking about junior senior unsecured, which results in one notch of uplift in the bank's senior unsecured bond rating and no uplift for more senior ratings because they already exceed the government rating before support considerations.

OTP MB

The affirmation of OTP MB's Baa3 backed long-term issuer rating, its Baa1/P-2 long- and short-term CRRs and Baa1(cr)/P-2(cr) long- and short-term CR Assessments is driven by the affirmation of OTP's equivalent ratings and assessments. OTP MB's ratings are aligned with the equivalent ratings of its parent bank, based on OTP's explicit and irrevocable guarantee for OTP MB's unsubordinated liabilities and Moody's considering OTP MB to be a highly integrated entity of OTP.

--OUTLOOK

The stable outlook on OTP's long-term deposit and senior unsecured ratings reflects the agency's expectation that the bank's credit profile and its liability structure will remain broadly unchanged over the next 12-18 months.

The stable outlook on OTP MB's backed long-term issuer rating also incorporates the agency's expectation that OTP's guarantee for its mortgage bank's unsubordinated obligations will remain in place unchanged.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

OTP's and OTP MB's ratings could be upgraded following an upgrade of OTP's BCA. Ratings that don't already benefit from the maximum possible uplift from the rating agency's Advanced LGF analysis could also be upgraded following the issuance of more junior instruments such that it were to result in lower losses for the relevant creditors.

OTP's BCA could be upgraded following significant additional improvement in its solvency mainly through higher capitalization and improved asset quality. An expansion into lower risk operating environments could also result in an upgrade of OTP's BCA.

OTP's and OTP MB's ratings could be downgraded following a downgrade of its BCA or changes in its liability structure that would result in lower notching following the application of Advanced LGF.

OTP's BCA could be downgraded following a significant deterioration in its solvency and its liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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